BUSINESS REVIEW

Unless stated otherwise, amounts and comparisons with prior year are calculated at constant currency ('Constant Exchange Rate' or 'CER', see note 34 for definition and explanation of rates used) and, where we refer to 'underlying' this is defined as being before separately disclosed items (see notes 2 and 34 for reconciliations to GAAP measures and relevance for these items being separately disclosed)

OUR GROUP PERFORMANCE

	FY 2017 CER	FY 2017 AER	FY 2016	**Growth at CER**	Growth at AER
Revenue	**£172.6m**	£186.5m	£161.4m	**7.0%**	15.6%
Gross Profit (GP)	**£53.6m**	£58.0m	£48.0m	**11.7%**	20.9%
GP%	**31.1%**	31.1%	29.7%	**+140bps**	+140bps
Underlying operating profit (UOP)	**£18.6m**	£21.0m	£16.8m	**10.9%**	25.2%
UOP%	**10.8%**	11.3%	10.4%	**+40bps**	+90bps
Operating profit (OP)	**£15.6m**	£17.9m	£13.9m	**12.5%**	28.8%
OP%	**9.0%**	9.6%	8.6%	**+40bps**	+100bps
Underlying profit before tax	**£18.1m**	£20.5m	£16.0m	**13.2%**	28.1%
Profit before tax	**£15.1m**	£17.3m	£13.1m	**15.4%**	32.6%
Underlying diluted EPS	**11.28p**	12.82p	9.99p	**12.9%**	28.3%
Diluted EPS	**8.97p**	10.40p	8.50p	**5.5%**	22.4%
Underlying ROCE		19.9%	18.5%		+140bps

"Another record breaking financial year with strong profitable growth across every region and continual improvements shown in our KPI's"

Gross margin

31.1% (2016: 29.7%)

For the first time in our history we have ended the year with a gross margin in excess of 30%

12.82p (2016: 9.99p)

Underlying diluted EPS at AER

Our performance across the business has delivered another record breaking financial year with strong trading results ahead of our expectations. Strong profitable top line growth has continued across every region, up by 7.0% at CER and leading to revenues of £186.5m at Actual Exchange Rate ('AER') for 2017.

Our underlying businesses have performed well with foreign exchange tailwinds also having a positive impact.

By far the biggest driver of our performance in 2017 has been organic growth (5.2%; 13.7% at AER), with the focus on our core strategy leading to sales increases to our 25 key multinational OEMs of 14.2% at AER. On the non-organic side, 2017 has seen the first full year of trading from our acquisition of *TR* Kuhlmann, successfully generating 1.8% (1.9% at AER) of revenue growth for the Group.

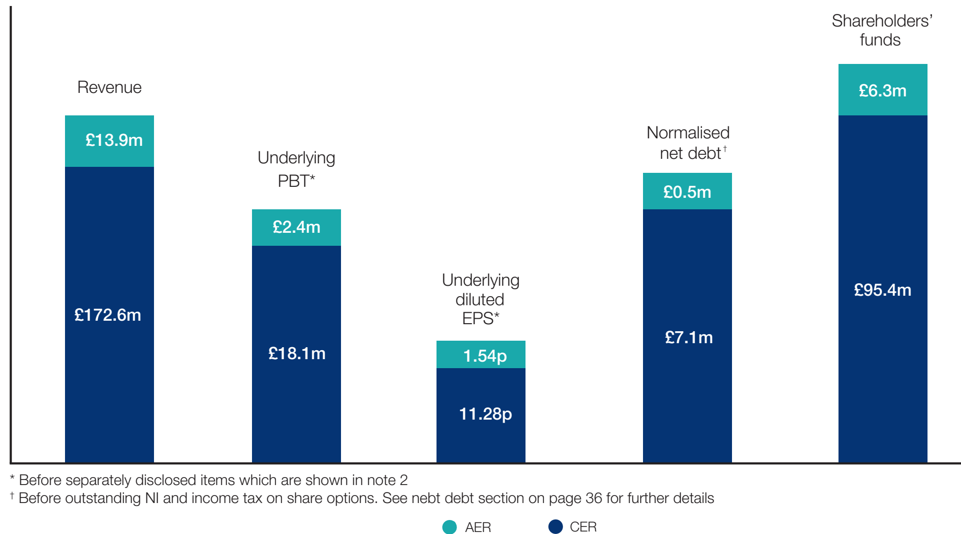
The strongest measure of the Group's success this year has been at the profit level. For the first time in our history we have ended the year with a gross margin in excess of 30%, representing the achievement of a long held ambition. Gross margin has increased by 140bps to 31.1% (at both AER and CER; 2016: 29.7%) and our gross profit is up by 11.7% to £53.6m (£58.0m at AER; 2016: £48.0m).

Against this gross margin increase, our Group underlying operating margin has stayed more consistent at 10.8% (11.3% at AER; 2016: 10.4%), reflecting the ongoing investments for growth that we have been making around the Group in our sales and operational teams as well as our capital investment programmes. Despite this ongoing investment for future growth, our underlying operating profit has continued to grow strongly with a 10.9% increase at CER and 25.2% at AER.

All of the above factors has helped to drive substantial growth in our underlying diluted EPS, up by 28.3% at AER to 12.82p (2016: 9.99p).

Given the significant weakening of Sterling since June 2016, CER continues to be the best way of understanding the positive progress of our underlying business. The impact of AER on some of our key metrics is illustrated in the graph below:

FX Effects



* Before separately disclosed items which are shown in note 2
† Before outstanding NI and income tax on share options. See nebt debt section on page 36 for further details

Dividend policy

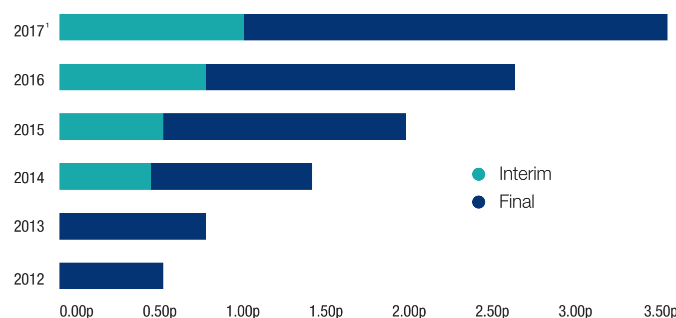
With our proven track record, a strong balance sheet and a confident strategy for growth, we remain committed to a progressive dividend policy.

As a result the Directors are proposing, subject to shareholder approval, a final dividend of 2.50p per share. This together with the interim dividend of 1.00p (paid on 13 April 2017), brings the total for the year to 3.50p per share, an increase of 25.0% on the prior year (2016: 2.80p). The final dividend will be paid on 13 October 2017 to shareholders on the register at the close of business on 15 September 2017. The ordinary shares will become ex-dividend on 14 September 2017.

The 2017 final proposed dividend means that over the last six years dividends have grown from 0.50p to 3.50p, equating to a compound annual growth rate ('CAGR') of 47.6%.

At the same time, dividend cover has fallen, now representing a cover of 3.7x. For the medium term, we believe an appropriate level of cover will continue to be in the range of 3x to 4x. As is always the case, the actual dividend each year will need to take in to account our ongoing strategy of investment driven growth, potential acquisitions and the working capital requirements of a growing business.

Dividend progression



1. To be approved at the 2017 AGM

Dividend cover

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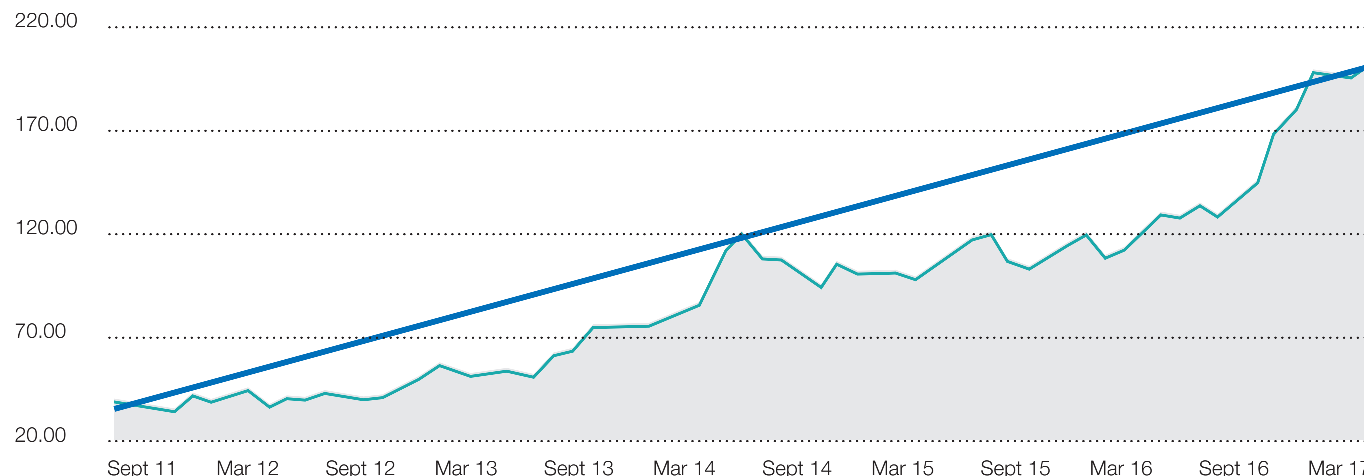
Share price – recovery to growth:

The significant increase in our share price over the last five years illustrates *Trifast's* successful recovery into growth. (compound annual growth rate: 38.7%)

Share price (p)



Share price 31 March 2017: 214.3p (1 April 2016: 130.0p)

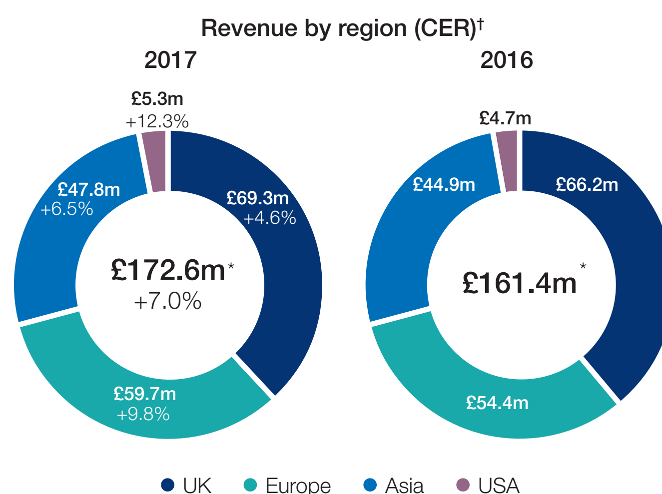
Revenue

This year's key revenue message is one of consistent growth. In FY2017, all of our regions have experienced strong top line growth ranging from 4.6% in our UK businesses to 12.3% in the US (4.6% to 28.2% at AER).

In Europe, our total growth has been 9.8%, made up of 4.6% of organic growth and 5.2% from acquisitions. This reflects a particularly strong HY1, specifically in our Italian domestic appliances business, and FY2017 gains in electronics in Hungary and automotive in Sweden.

In Asia, we have seen a robust return to growth, with total sales (including intercompany) in the region growing by 6.5% to £47.8m (2016: 1.1% and £44.9m) following a strong HY2. Growth at entity level has been equally good, with Singapore continuing to perform well, up by 9.4% (25.2% at AER), in the domestic appliances market and Shanghai, up 9.8% (18.4% at AER), on the automotive side. Most notable is the successful return to growth in our PSEP, Malaysia business. A contraction in the local automotive market has reduced trading levels over recent years. However, in FY2016 we saw this bottom out and in FY2017 top line growth of 6.2% (16.1% at AER) has come from of a mix of both domestic and export sales.

Revenue by region (CER)†



* After eliminating intercompany revenues
† Regional revenues include intercompany. AER values can be found in note 3 of the financial statements

"This year's key revenue message is one of consistent growth. In FY2017, all of our regions have experienced strong top line growth ranging from 4.6% in our UK businesses to 12.3% in the US (4.6% to 28.2% at AER)"

For our UK businesses, it has also been a year of good growth in what is a mature market. Overall total revenues are up 4.6% to £69.3m (2016: £66.2m), with the biggest increase being seen across our distribution businesses, 10.4% to £12.5m at AER, predominantly arising out of additional sales volumes to our European distributors. Outside of this, growth has largely come from increased sales to our multinational OEMs in the automotive sector.

In the US, we continue to see very strong revenue growth of 12.3% to £5.3m (£6.0m at AER; 2016: £4.7m) again largely as a result of our ongoing multinational OEMs focus.

Gross margin

The Group's gross margin has increased by 140bps (at both AER and CER) to 31.1% (2016: 29.7%). Outside of the US, gross margin improvements have been seen across all regions. This is most specifically within Europe, largely due to favourable cost variances and capacity increases at our Italian manufacturing site.

In the UK, gross margins have increased by 100bps, largely due to transactional gains on our export revenues caused by positive movements in the Euro exchange rate. Whilst in Asia, a change in product mix and capacity increases at our Singapore and Malaysian sites has had a similar margin impact.

In the US gross margins have fallen by 410bps as the result of product mix changes and an increased focus on the automotive sector.

Underlying operating margin

Underlying operating margins have increased by 40bps to 10.8% (11.3% at AER; 2016: 10.4%). The biggest increase is in Europe of 160bps (180bps at AER), largely as the result of the increase in gross margin noted above. In Asia, margins have fallen by 40bps to 14.6% (14.9% at AER; 2016: 15.0%) partly as the result of a foreign exchange balance sheet translation loss of £0.2m (2016: gain of £0.2m) due to the ongoing weakness in the Euro and Sterling as well as additional investments to support ongoing growth in the region.

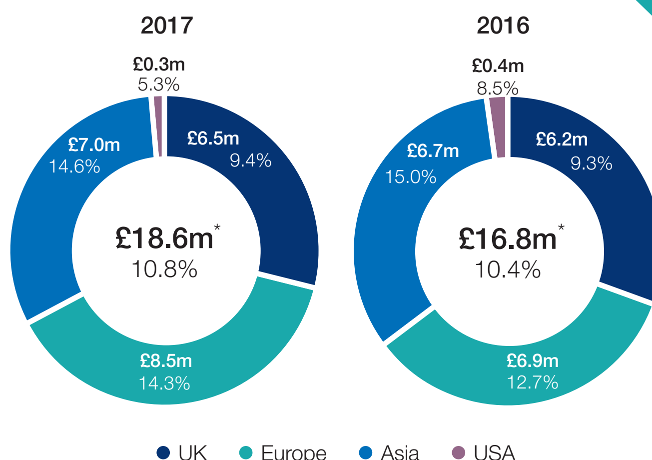
In the UK, margins have remained broadly stable at 9.4% (2016: 9.3%), whereas in the US we have seen the drop in gross margin feeding down into a similar fall at the underlying operating profit level. As sales continue to build, we expect underlying operating profits in this region to improve as planned investments for growth can be better absorbed.

Net financing costs (at AER)

Interest costs have continued to fall to £0.5m (2016: £0.8m) reflecting both a decrease in the average net debt balance to £12.2m (2016: £16.6m) and a reduction in the interest margin charged following an amendment of our HSBC banking facilities on the 7 October 2016.

"The Group's gross margin has increased by 140bps to 31.1% (2016: 29.7%). Outside of the US, gross margin improvements have been seen across all regions"

Underlying operating profit and margin by region (CER)†



* After deducting central costs
† Before separately disclosed items which are shown in note 2

BUSINESS REVIEW

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"Our net debt position has significantly decreased by £9.6m to £6.4m (2016: £16.0m). One of the key reasons driving that reduction is our very strong cash generation"

Taxation (at AER)

The Underlying Effective Tax Rate ('UETR') has reduced slightly in the year to 23.6% (2016: 24.9%) largely as a result of an increase in the tax deductibility of certain permanent staff costs in Italy.

Subject to future tax changes and excluding prior year adjustments, our UETR is expected to be c.25% going forward.

Net debt (at AER)

Our net debt position has significantly decreased by £9.6m to £6.4m (2016: £16.0m). One of the key reasons driving that reduction is our very strong cash generation. In FY2017 our underlying EBITDA to underlying operating cash conversion rate was 97.3% (2016: 88.9%, 102.7% net of the de-factoring in VIC). This led to an operating cash inflow of £22.5m, and despite our significant increase in trading (15.6% and £25.1m at AER), a working capital increase of only £0.8m reflecting our continued high focus on working capital levels around the Group.

Our normalised net debt position at 31 March 2017 is higher at £7.6m. This adjustment reduces our cash holding at year end to take into account the £1.2m of cash specifically held to settle the NI and income tax payments (due in April 2017) relating to Malcolm Diamond's exercise of 1,000,000 share options on 17 February 2017. Further information is included in the Directors' Remuneration Report regarding this transaction and Malcolm's shareholding.

Banking facilities

The Group finalised amended banking facilities with HSBC on 7 October 2016. In summary, the amendments reduce the Group's reliance on the asset backed lending facilities, decrease the overall cost structure and extend the maturity profile of a proportion of our borrowings to better reflect the Group's core funding and investment requirements.

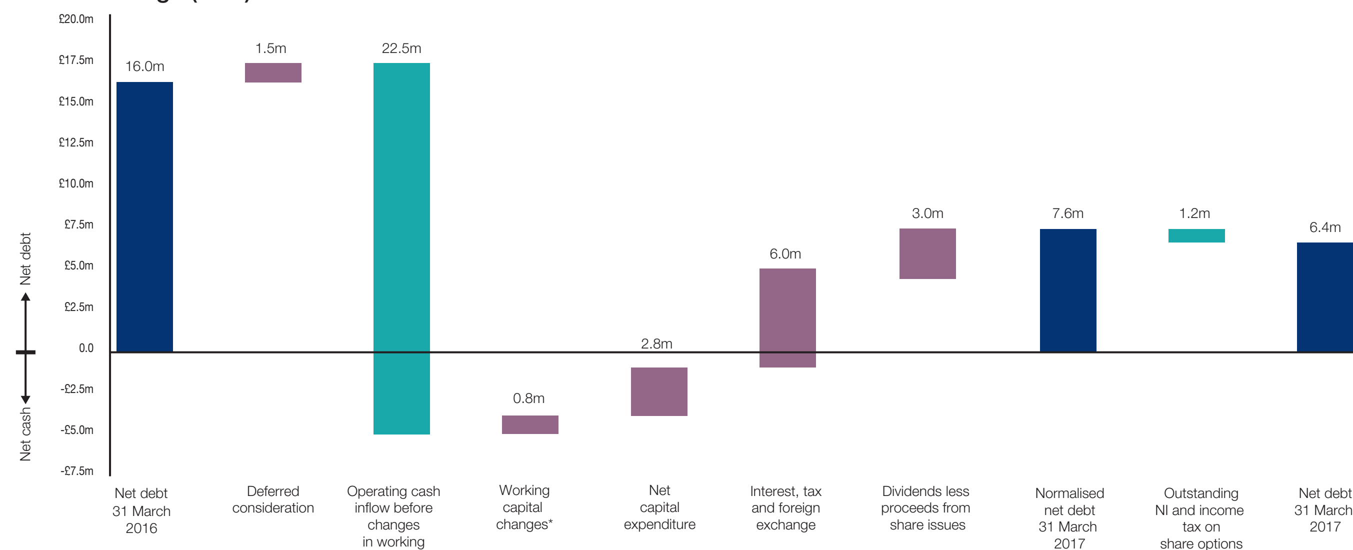
Taking these changes into account, headroom has increased by c.£5.0m, helping to support our strategy of investment driven growth. In addition, an accordion facility of £20.0m has been written into the agreement, providing the potential flexibility to debt finance future acquisitions and investments.

Return on Capital Employed (at AER)

As at 31 March 2017, the Group's shareholders' equity had increased significantly to £101.7m (2016: £83.8m). This £17.9m movement is made up of retained earnings of £11.3m, share issues totalling £0.3m and a substantial foreign exchange reserve gain of £6.3m which arose due to the sustained weakening in Sterling in the financial year.

Over this increased asset base, our very strong trading performance has led to a higher underlying ROCE of 19.9% (2016: 18.5%).

Net debt bridge (AER)



* Before outstanding NI and income tax on share options.

Looking ahead

Group outlook

Looking ahead, the global fastenings market is forecast to grow by 5% a year over the next five years, with all our regions predicting growth.

Geographically Europe, Asia and USA all remain key focus areas for us both organically and non-organically and with our new Spanish greenfield site now up and running, we are in a prime position to continue to develop that important market in the future.

The current financial year has started well and, with a robust pipeline in place, there is no indication this will change. The additional investments we are making in our people across the world, including into our global and local sales teams, mean the Group is in a good position to move forward. Moreover, the strategic investments we are making in our global Customer Relationship Management ('CRM') systems and our key account management have been specifically targeted to further support our core strategy of focusing on our multinational OEMs.

In manufacturing, our capital expenditure plans will increase capacity at both our Italian and Singaporean sites so as to reduce our per part production costs, and allow us to retain higher profits per sale by bringing more manufacturing in-house in the future.

To complement these strong underlying growth plans, further acquisitions remain an important strategic growth pillar for the Group. Our acquisition strategy has been developed to identify key criteria and geographies and we will continue to use this to drive our proactive search for the next successful acquisition.

There are, of course, some macroeconomic factors we cannot fully mitigate, including movements in foreign currency and the ongoing volatility in the raw materials markets, as well as the wider potential implications of Brexit on our business and the UK economy. We are already starting to see some purchase price challenges arising out of both the ongoing weakness in Sterling and the relative strength of the US Dollar, which we expect to increase over time if circumstances persist. However, taking the Group as a whole, with our geographical diversity, our balanced sector mix and our clear strategies for growth, we remain optimistic about the Group's prospects.